

Schedule of Federal Audit Findings and Questioned Costs

Davenport School District No. 207 Lincoln County September 1, 2008 through August 31, 2009

- 1. Davenport School District No. 207's internal controls are inadequate to ensure compliance with federal requirements for its child nutrition program.**

CFDA Number and Title:	10.553 School Breakfast Program 10.555 National School Lunch Program
Federal Grantor Name:	U.S. Department of Agriculture
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Office of the Superintendent of Public Instruction
Pass-through Award/Contract Number:	22-207
Questioned Cost Amount:	\$0

Description of Condition

The District received \$122,889 in federal funds for its National School Lunch and Breakfast programs in fiscal year 2009. These programs provide free and reduced-price meals for low-income students.

Procurement

State law requires school districts to seek quotes for the purchase of equipment, supplies and materials from at least three vendors when the price exceeds \$40,000. Grant recipients that purchase goods and services with federal funds must maintain records to show compliance with this requirement. These records should include the reason for the procurement method used, vendor selection or rejection and the basis for the contract price.

The District purchased food from one vendor for \$59,780. It did not retain documentation to show it obtained the required number of quotes from vendors.

Suspension and debarment

Recipients of federal grants are prohibited from contracting with or making sub-awards to parties suspended or debarred from doing business with the federal government. If a vendor certifies in writing that it has not been suspended or debarred, the grantee may rely on that certification. Alternatively, the grantee may check for suspended or debarred parties by reviewing the federal Excluded Parties List System issued by the U.S. General Services Administration. This requirement should be met prior to the first payment to the vendor.

We noted one instance in which the District did not ensure a vendor was not suspended or debarred from receiving federal grant funds. The District paid this vendor \$59,780.

Verification

To be eligible for free or reduced-price meals under these federal programs, households must meet income guidelines. School districts verify a sample of household applications annually. The Office of the Superintendent of Public Instruction (OSPI) provides instructions and prescribes eligibility sampling methods. The District was required to exclude applications directly certified by the state Department of Social and Health Services (DSHS) from its sample and to select applications more prone to error, such as those with income close to the upper limits for free and reduced-price meal eligibility.

OSPI instructions stated the District was required to verify the household income on two applications. Both applications it selected should have been excluded from the sample and the District should have selected different applications. One application was not considered “high risk” and the other had been approved by DSHS through the direct certification process and should have been excluded. In addition, the applications selected for verification were not reviewed by a second person for accuracy as required.

Cause of Condition

Procurement

Although the District was aware of federal procurement requirements, it did not have a system in place to ensure documentation was retained.

Suspension and debarment

District employees responsible for ensuring compliance were unaware of the requirement to verify suspension and debarment for vendors.

Verification

District employees responsible for the verification process misinterpreted the OSPI sampling method instructions and selected applications that were not considered high risk for errors or were directly certified by DSHS.

Effect of Condition

Procurement

The District cannot demonstrate it obtained the best price for food products purchased.

Suspension and debarment

The District cannot ensure it paid federal funds to vendors that were eligible to participate in the federal program. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency. However, we were able to verify the vendor was not suspended or debarred and are not questioning costs.

Verification

When the District does not sample higher risk applications, it may receive funding for households that did not meet the income requirements for free and reduced meals.

Recommendation

We recommend the District establish and follow internal controls and procedures to ensure compliance with child nutrition program requirements including procurement, suspension and debarment, and eligibility verification. In addition, we recommend appropriate District employees receive grant training to ensure they are knowledgeable of federal requirements.

District's Response

The person responsible for auditing the free and reduced lunch applications talked to the auditors and understood her mistake. She will make sure she is using the appropriate selection process in the future.

The District did not realize that the food purchased through one vendor exceeded \$40,000 and should have written documentation on file that they had called and received bids from different companies. They did call at the beginning of the school year but they did not retain the documentation. They will now have documentation on file showing they have called and received different pricing and have gone with the lowest responsible bidder.

The District did not realize that they needed to verify suspension and debarment for vendors exceeding \$25,000. They will now verify at the beginning of each school year that the vendor is in good standing with the state.

Auditor's Remarks

We appreciate the District's commitment to resolving this issue. We will review the condition during our next audit.

Applicable laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Title 7, Code of Federal Regulations, Section 3016.36 – Procurement, states in part:

(b) Procurement standards.

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Revised Code of Washington 28A.335.190 – Advertising for bids - Competitive bid procedures - Purchases from inmate work programs - Telephone or written quotation solicitation, limitations - Emergencies, states in part:

(2) Every purchase of furniture, equipment or supplies, except books, the cost of which is estimated to be in excess of forty thousand dollars, shall be on a competitive basis. The board of directors shall establish a procedure for securing telephone and/or written quotations for such purchases. Whenever the estimated cost is from forty thousand dollars up to seventy-five thousand dollars, the procedure shall require quotations from at least three different sources to be obtained in writing or by telephone, and recorded for public perusal. Whenever the estimated cost is in excess of seventy-five thousand dollars, the public bidding process provided in subsection (1) of this section shall be followed.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

(a) Checking the EPLS; or

(b) Collecting a certification from that person if allowed by this rule; or

(c) Adding a clause or condition to the covered transaction with that person.

Title 7, Code of Federal Regulations, Section 245.6a – Verification requirements, states in part:

(a) *Verification requirement . . . Focused* sampling consists of selecting and verifying a minimum of: the lesser of 1 percent or 1,000 of total applications selected from non-food stamp households claiming monthly

income within \$100 or yearly income within \$1200 of the income eligibility limit for free or reduced price meals; plus the lesser of one half of 1 percent (.5%) or 500 applications of food stamp, FDPIR or TANF households . . .

(5) *Exceptions from verification* . . . Verification of eligibility is not required of households when the determination of eligibility was based on documentation provided by the State or local agency responsible for the administration of the Food Stamp Program, FDPIR or TANF Program . . .

Office of Superintendent of Public Instruction Bulletin No. 087-08 Child Nutrition Services, states in part:

. . . Local education agencies (LEAs) must complete the annual verification of free and reduced-price meal applications (U.S. Department of Agriculture [USDA] regulation 7 CFR 245.6a) by **November 15, 2008**.

LEAs that had less than a 20 percent non-response rate may choose either the 3 percent random or the 1 percent plus ½ percent focused sampling method. . .

Households included in the Department of Social and Health Services (DSHS)/OSPI direct certification list are to be excluded from the pool of applications available for verification. The eligibility of these households has already been confirmed by DSHS. Furthermore, those students which have been certified as migrant, homeless, or runaway youth are also considered as directly certified and should not be included in the applications available to be verified.

Federal regulation requires a second party review of all free and reduced-price applications selected for verification. Referred to as a Confirmation Review, this review must be completed prior to sending letters to households notifying them that they have been selected for verification and requesting that they provide documentation to show their income and family size, as indicated on their application, is correct. This must be done by someone other than the application approving official. If your district uses an automated system to approve applications, you may waive this requirement, provided you adhere to the sample test requirements. The purpose of this sample test is to ensure that applications have been correctly approved based on the information provided . . .